

Message Text

UNCLASSIFIED

PAGE 01 LONDON 08993 01 OF 02 032034Z

70

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20

H-03 L-03 PA-03 PRS-01 USIA-15 RSR-01 /191 W

----- 002815

R 031952Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3117

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 02 LONDON 08993

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING AUGUST 3

BEGIN SUMMARY: AFTER STERLING'S SHARP DECLINE LAST WEEK,
THE POUND STRENGTHENED THIS WEEK AGAINST MAJOR CURRENCIES
BUT REMAINED VIRTUALLY UNCHANGED AGAINST THE DOLLAR

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08993 01 OF 02 032034Z

AFTER FRIDAY'S SHARP RISE. STERLING CLOSED AT \$2.5150

ON THURSDAY (AUGUST 2). MUCH OF THE STRENGTHENING IN THE POUND WAS DUE TO A SHARP RISE IN INTEREST RATES WITH THE MINIMUM LENDING RATE SET AT 11-1/2 PERCENT ON JULY 27 AND THE CLEARING BANKS RAISING THEIR BASE LENDING RATE TO 10 PERCENT ON AUGUST 1. STERLING'S DEVALUATION ON A TRADE-WEIGHTED BASIS HAS IMPROVED ALL WEEK AND NOW STANDS AT 17.47 PERCENT. THE CHANCELLOR ANNOUNCED AFTER TALKS WITH THE TUC LAST FRIDAY THAT THERE WOULD BE NO FALL BUDGET AND THAT U.K. RESERVES WOULD BE USED WHERE NECESSARY TO SUPPORT THE STERLING RATE. U.K. OFFICIAL RESERVES FELL IN JULY TO \$6,628M FROM \$7,013M IN JUNE. WHILE CONSUMER CONFIDENCE SAW A SHARP SETBACK IN JULY, THE CBI'S LATEST INDUSTRIAL TRENDS SURVEY GIVES A BUOYANT PICTURE OF PRODUCTION, ORDERS, EMPLOYMENT, INVESTMENT AND GENERAL BUSINESS CONFIDENCE WITHIN THE U.K. MANUFACTURING INDUSTRY. THE RISE IN IMPORT PRICES SLACKENED IN JUNE. END SUMMARY

1. THE POUND HAS STRENGTHENED EACH DAY THIS WEEK AFTER LAST FRIDAY'S SHARP JUMP OF THE BANK OF ENGLAND'S MINIMUM LENDING RATE TO 11-1/2 PERCENT. THE WEIGHTED DEPRECIATION OF STERLING NARROWED FROM MORE THAN 19 PERCENT LAST THURSDAY (JULY 26) TO 17.47 PERCENT THIS THURSDAY (AUGUST 2). THE POUND CLOSED AT \$2.5150 ON AUGUST 2, UP 3.05 CENTS ON LAST THURSDAY'S CLOSE, BUT UP ONLY 0.65 CENTS ON LAST FRIDAY'S CLOSE. GOLD HAS REMAINED CALM ALL WEEK WITH A LOW OF \$115.50 ON MONDAY (JULY 30) AND A HIGH OF \$117.50 ON WEDNESDAY (AUGUST 1).

2. ON AUGUST 1 ALL THE MAJOR BANKS RAISED THEIR MINIMUM LENDING RATE FROM 8 PERCENT TO 10 PERCENT. THE CHANGE MEANS THAT "BLUE CHIP" CUSTOMERS WILL HAVE TO PAY 11 PERCENT WHILE OTHER CUSTOMERS WILL HAVE TO PAY BETWEEN 12 AND 15 PERCENT. SEVERAL BANKS, THOUGH, RAISED THE INTEREST PAID ON DEPOSITS TO REDUCE THE IMPACT ON THEIR PROFITS WHICH HAVE BEEN EXCEPTIONALLY HIGH. THIS JUMP IN LENDING RATES WAS FORCED ON THE BANKS BY THE SHARP RISE IN MONEY MARKET RATES WHICH FOLLOWED THE OFFICIAL ACTION TWO WEEKS AGO TO TAKE A FURTHER 1 PERCENT OF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08993 01 OF 02 032034Z

SPECIAL DEPOSITS FROM THE BANKING SYSTEM. THIS WAS FOLLOWED BY A STEEP RISE IN THE BOE'S MINIMUM LENDING RATE. THESE MOVES WERE DESIGNED TO FORCE AN INCREASE IN U.K. INTEREST RATES, PARTLY TO SUSTAIN THE POUND AGAINST PRESSURE ARISING FROM THE COMPETITIVE RATES ELSEWHERE, AND PARTLY AS A CONTRIBUTION TO KEEPING DOWN THE GROWTH IN THE MONEY SUPPLY. THE BUILDING SOCIETIES ARE PARTICULARLY AFFECTED BECAUSE FUNDS ARE BEING

ATTRACTED AWAY FROM THEM DUE TO THE HIGH RATES BEING
PAID ON TIME DEPOSITS.

3. IN JULY, OFFICIAL BRITISH RESERVES FELL BY \$385M TO
STAND AT \$6,628M AT THE END OF THE MONTH. CONVERTED AT
\$2.5185 (THE CLOSING RATE ON JULY 31) RESERVES FELL
BY 153M POUNDS TO 2,632M POUNDS. THE TOTAL OUTFLOW OF
\$685M WAS PARTIALLY OFFSET BY \$300M IN RECEIPTS FROM
FOREIGN BORROWINGS BY THE PUBLIC SECTOR. THE TREASURY,
CONCERNED THAT THE ENTIRE OUTFLOW WOULD BE WHOLLY
ATTRIBUTED TO BANK OF ENGLAND SUPPORT FOR THE POUND
LAST MONTH, NOTED THAT GOVERNMENT EXPENDITURE AND

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 08993 02 OF 02 032043Z

70

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20

H-03 L-03 PA-03 PRS-01 USIA-15 RSR-01 /191 W

----- 002879

R 031952Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3118

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC
TREASURY DEPT WASHDC

UNCLAS SECTION 02 OF 02 LONDON 08993

DEPARTMENT FOR FRB

TRANSACTIONS WITH OTHER CENTRAL BANKS CAN ALSO
DEplete RESERVES. THE PRESS NOTES THAT IT IS WIDELY
BELIEVED IN THE FOREIGN EXCHANGE MARKET THAT BETWEEN
\$250M AND \$350M OF JULY'S RESERVE LOSS MIGHT HAVE
OCCURRED AS A RESULT OF THE BOE'S SUPPORT
ACTIVITIES. LAST FRIDAY, THE CHANCELLOR, AFTER TALKS
WITH TUC LEADERS, SAID THAT HE "WOULD NOT HESITATE TO USE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 08993 02 OF 02 032043Z

OUR (U.K.'S) AMPLE RESERVES IF THIS IS NECESSARY TO
PROTECT THE ECONOMY FROM UNJUSTIFIED FALLS IN THE
EXCHANGE RATE". THE SIGNS SUGGEST THAT THIS VIEW WAS
TRANSLATED INTO ACTION IN JULY. IT SHOULD BE NOTED,
THOUGH, THAT THE TOTAL AMOUNT ADDED TO RESERVES SINCE
THE MARCH 6 BUDGET THROUGH PUBLIC SECTOR BORROWING IS
NOW \$1,147M. THESE BORROWINGS HAVE HELPED THE
GOVERNMENT TO FINANCE ABOUT HALF THE PREDICTED (900M
TRADE DEFICIT FOR 1973.

4. THE LATEST SURVEY OF FINANCIAL EXPECTATIONS UNDER-
TAKEN BY THE BRITISH MARKET RESEARCH BUREAU FOR THE
FINANCIAL TIMES SHOWED THAT CONSUMERS CONFIDENCE HAS

DROPPED SHARPLY AFTER FIVE CONSECUTIVE MONTHS OF IMPROVE-
MENT. THERE WAS ALSO A MARKED INCREASE OF THOSE WHO FELT
THEY ARE NOW WORSE OFF THAN THEY WERE A YEAR AGO. THIS
EVIDENCE IS SEEN AS CONFIRMING EMPIRICAL EVIDENCE THAT
THE STEAM HAS GONE OUT OF THE CONSUMER BOOM. THE
RESULTS OF THE CBI'S LATEST INDUSTRIAL TRENDS SURVEY
GIVES THE OVERALL IMPRESSION THAT ALTHOUGH INDUSTRIAL
ACTIVITY IS STILL RISING, THE RATE OF INCREASE IS
SLOWING DOWN. WHILE THE GENERAL SITUATION IN
MANUFACTURING IS NOW VIEWED AS BUOYANT, NO ENCOURAGEMENT
IS PROVIDED FOR GOVERNMENT ON THE LIKELY TREND OF PRICES.
THE NUMBER OF COMPANIES REPORTING AN INCREASE IN AVERAGE
COSTS PER UNIT OF OUTPUT OVER THE LAST FOUR MONTHS IS
THE HIGHEST FOR TWO YEARS AND LITTLE IMPROVEMENT IS
EXPECTED.

5. THE RISE IN THE PRICES OF IMPORTS SLACKENED DURING
JUNE, BRINGING SOME RELIEF FROM THE INFLATIONARY

PRESSURE ON FOODS AND IMPORTED RAW MATERIALS FOR INDUSTRY. ON THE OTHER HAND, BRITAIN SUFFERED A FURTHER WORSENING IN ITS TERMS OF TRADE WITH THE TERMS OF TRADE INDEX (EXPORT UNIT INDEX AS A PERCENTAGE OF IMPORT UNIT INDEX) FALLING FROM 97 IN MAY TO 96 IN JUNE (1961100). THIS MOVEMENT ALONE COULD HAVE AN ADVERSE EFFECT ON THE BALANCE OF PAYMENTS OF 120M POUNDS OVER THE COURSE OF THE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 08993 02 OF 02 032043Z

YEAR. DURING SECOND QUARTER 1973, THE INDEX HAS FALLEN BY 3 POINTS, EQUIVALENT TO AN EXTRA 360M POUNDS ON BRITAIN'S TRADE BILL.

6. THE FORWARD DISCOUNT ON STERLING NARROWED AT THE BEGINNING OF THE WEEK, WIDENED ON WEDNESDAY, AND NARROWED AGAIN ON THURSDAY. COMPARED WITH LAST THURSDAY, THE DISCOUNT WIDENED SOMEWHAT.

	7/26	8/2	CHANGE	
1 MONTH	0.50	0.69-1/2	0.19-1/2	
3 MONTHS	1.75	1.89	0.14	
6 MONTHS	3.50	3.88-1/2	0.38-1/2	

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY UNTIL WEDNESDAY AND THEN FELL BACK marginally ON THURSDAY.

	7/26	8/2	CHANGE	
1 MONTH	9	11-3/4	UP 2-3/4	
3 MONTHS	10	11-11/16	UP 1-11/16	
6 MONTHS	10-13/16	11-5/8	UP 13/16	

8. EURODOLLAR RATES MOVED WITHIN NARROW MARGINS ALL WEEK, CLOSING SLIGHTLY UP ON LAST THURSDAY'S CLOSE.

	7/26	8/2	CHANGE	
1 MONTH	11-3/16	11-1/4	UP 1/16	
3 MONTHS	11-5/16	11-7/16	UP 1/8	
6 MONTHS	11-5/16	11-7/16	UP 1/8	

9. GOLD CLOSED AT \$116.50 DOWN \$2.50 FROM LAST THURSDAY'S CLOSE.

10. THE MINIMUM LENDING RATE REMAINED AT 11-1/2 PERCENT ON FRIDAY, AUGUST 3.

SOHM

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 03 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON08993
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730859/aaaabrqo.tel
Line Count: 271
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by reddocgw>; APPROVED <15-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING AUGUST 3 BEGIN SUMMARY: AFTER STERLING'S SHARP DECLINE LAST WEEK
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005